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ABSTRACT

This report uses longitudinal data to provide a dynamic picture of the family income experiences of children and the elderly. In contrast to the image of fairly stable incomes during most life-cycle stages, findings show substantial income volatility at all points in the life span, placing substantial numbers of the population at risk of suffering significant losses and, in the extreme, of falling into poverty. These risks were exceedingly high for black children, quite high for elderly women and lowest for men in their prime earning years. An examination of the events associated with this income volatility showed that divorce and unemployment of the household head were most significant for children, while retirement and widowhood were most important for the elderly. In contrast to the effects of divorce and widowhood, the adverse economic consequences of unemployment appeared to be short-lived in most cases. What emerges from the analysis is a picture of the economically vulnerable population distinguished not so much by age as by sex. Policy implications are discussed and a list of references is included as well as an appendix of definitions of events. (PS)

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Life Events, Public Policy and the Economic Vulnerability of Children and the Elderly

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LIFE EVENTS, PUBLIC POLICY AND THE ECONOMIC VULNERABILITY OF CHILDREN AND THE ELDERLY

I. Introduction

The degree of hardship caused by an economic setback is determined not only by the magnitude of the setback, but also by the ability of the individuals affected to cope with it. One's ability to do so varies over life, but two groups, the young and the old, are considered especially vulnerable to such setbacks. Children are completely dependent upon others for their economic security, and are especially vulnerable to adverse career events and marital decisions of their parents. A growing body of evidence links outcomes such as completed schooling to the economic resources available during childhood (Sewell and Hauser, 1976; White, 1982; Hill and Duncan, in press). The elderly, for their part, are vulnerable because they are less able to turn to the labor market for help in coping with economic adversity or to remarriage after the death of a spouse. Childhood and old age, at the opposite ends of the life course, have traditionally been associated with lower levels of well-being and greater risks of poverty, and have increasingly been the target of social transfer policy over the last half century.

Much of our knowledge of the economic position of children and the elderly is based on cross-sectional data on family income. Such data provide snapshot pictures of income distribution showing percentages of a population subgroup in the midst of a spell of poverty at the point the picture is taken, but they offer no direct information on the volatility of income or the duration or risk of poverty as people age. More sophisticated studies begin to address such questions by comparing snapshot data at several points and charting changes in the risk of poverty as cohorts age. This is useful, but is still able only to capture net changes in status and not to identify the life events most associated with poverty and economic adversity.

This chapter focuses directly on the dynamic nature of family well-being through the use of two longitudinal data bases that enable us to trace experiences of the same individuals over a decade or more. In contrast to the image of fairly stable incomes during most life-cycle stages often inferred from cross-sectional data, we find substantial variation and volatility in economic well-being both within and across age cohorts. And while poverty episodes are not at all uncommon, especially for children and the old, their duration is often short.

We investigate patterns of life events — dissolutions of families, retirement, unemployment, illness — that threaten individuals with substantial decreases in economic well-being. For children, divorce is found to be the most important family composition event

and the unemployment of the household head the most important labor force event associated with such losses. For the aged, the life events most associated with dramatically reduced income are retirement and the death of a spouse.

Once the life events that most seriously threaten the well-being of children and the aged are identified, the unique strength of the longitudinal data can be fully utilized. For children, we focus on the effect of unemployment and, especially, divorce on the level and composition of family income. Although unemployment is found to be implicated more frequently than divorce in major income losses, the duration of most unemployment episodes appears to be short-term. Long-term unemployment is shouldered by a rather small fraction of those who ever experience unemployment.

In contrast, the economic effects of divorce or separation on the women and children involved often last for many years. Living standards fall substantially for divorced women and their children, despite our system of private (e.g., alimony and child support) and public (e.g., AFDC) transfers. In contrast, the living standard of divorced husbands rises following divorce. As time passes, the living standards of women and children involved in a remarriage are restored to pre-divorce levels, but remain at essentially the same low level when no remarriage occurs, as falling child support payments cancel out increases in the earnings of the mothers.

For the elderly we focus on the transition from market work to retirement and on the transition of older women from wives to widows. Couples who receive both Social Security and private pension benefits face a very small chance of falling into poverty as long as both spouses are alive. For couples without private pension benefits the likelihood of a fall into poverty in retirement is greater. However, the risk of falling into poverty is largest in the initial period of retirement. It diminishes greatly as long as both marriage partners survive. The greatest threat of poverty for older women in retirement, however, occurs with the onset of widowhood. Private pensions by no means eliminate the risk of poverty for widows.

II. Data and Methods

Data. The empirical results that follow are based on data from two longitudinal surveys, the Panel Study of Income Dynamics (PSID) and the Retirement History Study (RHS). Since 1968 the PSID has interviewed annually a representative sample of some five thousand families. At least one member of each family was part of the original families interviewed in 1968, or born to a member of one of these families. For a fuller discussion of these data see Survey Research Center (1984). Using these data we provide an overview of patterns of

income level and volatility across life and identify the life events associated with income losses. The data are then used in the analysis of the economic effects of unemployment and divorce on children.

The RHS, conducted by the Social Security Administration, interviewed households headed by a person aged 58 to 63 in 1969 and repeated the interviews at 2-year intervals over the following 10-year period. In 1969, single men and women and husbands of couples were interviewed as primary respondents. When a spouse died, the survivor became the primary respondent and was followed during the remainder of the survey period. For a fuller discussion of the data see Ireland (1973). These data are used to trace the well-being of the aged throughout retirement.

Measures of economic status. It is natural to use the family as the unit for measuring economic status. Families pool their resources, transferring income to members too young, too old or too involved with nonmarket activities such as child-rearing to secure an adequate income for themselves. Total family money income is the most common yardstick of economic status, and it is also one of the measures we use. It is obtained by summing all sources of income for all family members during a calendar year.

However, there are many reasons why total family cash income is less than ideal as a measure of family economic status (Moon and Smolensky, 1977). Among the most important is the fact that there are dramatic differences among families in the number and ages of family members who share a given income. Family size adjustments can be made by dividing family income by the federal government's annually calculated poverty thresholds for families with different compositions based on the number, sex and age of family members, producing what we will term an income-to-needs ratio. The poverty threshold for a family of four in 1985 dollars was approximately $11,000. A family of four with a family income of $33,000 would have an income-to-needs ratio of 3.0. A family of four with an income of $6500 would be deemed poor, and have an income-to-needs ratio of 0.5.[1]

The unit of analysis. Official poverty thresholds consider the family to be the appropriate unit for the measurement of economic status. Individuals within families are assumed to share resources equally. We share this assumption in the sense that we presume

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[1]Other possible adjustments include the valuation of in-kind benefits (including work-related in-kind fringe benefits), taxes paid, ownership of durables, resource allocation within families, amount of leisure time available, and work-related expenses. Danziger, van der Gaag, Smoleneky and Taussig (1984) estimate the importance of adjustments to cash income for taxes paid, durables, family size and composition, and use of the individual rather than the household as the unit of analysis. They find that the family size and composition adjustments are by far the most important.

that all members of a family move into and out of poverty together when family income climbs above or falls below the poverty threshold. But our unit of analysis is the individual. This is because family composition changes dramatically over time, and the identity of families, given changes such as divorce, is virtually impossible to define. Only individuals retain their own identity. Changes in family composition, either reductions through separation, divorce, or death or increases through marriage and births are important life events associated with changes in the well-being of individuals. These critical life events could not be taken into account by a study that, in order to maintain uniformity, looked only at families that did not change composition over time.

III. Patterns of Well-Being Across Life

We first examine trends and stability of family income over the eleven-year period between 1969 and 1979, using the PSID. All income figures have been inflated to 1985 levels, using the Consumer Price Index. We describe the separate experiences of children, prime-aged adults and the elderly, categorizing individuals according to their age and sex in 1969, the first year of the period. The youngest group consists of children under the age of five in 1969, who will have spent the entire eleven-year period as dependent children. Given the policy concern for the experiences of minority children, we present separate figures for white and black children.[2] The 25–45 year group contains individuals spending the entire eleven years in their "prime" labor market and parenting years. Most of the individuals in the 56–65 year range will have retired during the eleven-year period, while most of the 66 to 75 year olds were retired when the period began.

The first and third columns of Table 1 present a cross-sectional snapshot of the average 1969 family income and income-to-needs of these various groups of individuals. Both measures show that children and the elderly are worse off than the two middle age groups. The average family incomes of the elderly are lower than those of children, but adjustments for family size incorporated into the income-to-needs measure roughly equates the average economic well-being of the two groups. Black children have living standards (as measured by income-to-needs) that are half those of their white counterparts.

A second snapshot, taken a decade later in 1979 and presented in the second and fourth columns, shows that the average economic status of children and prime-age adults increased substantially as the advancing careers and higher asset incomes of many swelled the pool of family income. Retirement is the most obvious explanation for the sharply reduced incomes of

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[2]The "white" category includes all children whose race was not black.

Table 1

Patterns of Income Level and Change 1969-1979 for Various Age Cohorts of Individuals

Demographic Status in 1969	1969 Family Income in Thousands	1979 Family Income in Thousands	1969 Income-to-Needs	1979 Income-to-Needs	Average Real Annual Growth in Income-to-Needs
Less than 5 years old					
White	$31.1	$42.7	3.0	3.6	1.2%
Black	19.5	23.5	1.6	1.8	0.4
All	29.6	40.3	2.8	3.4	1.1
25-45 years old					
Men	37.8	48.0	3.7	4.9	2.9
Women	36.5	42.6	3.5	4.5	2.2
56-65 years old					
Men	35.7	23.2	5.0	3.5	-3.4
Women	26.6	20.2	4.0	3.0	-3.1
66-75 years old					
Men	22.3	24.7	3.2	3.0	-1.3
Women	16.9	14.4	2.6	2.4	-1.1

NOTE: All dollar figures have been inflated to 1985 levels with the Consumer Price Index.

SOURCE: Panel Study of Income Dynamics.

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many of the 56 to 65 year old group, while the average status of the post-retirement cohort is found to have changed little. Average values of a more direct measure of change in income-to-needs, shown in the fifth column of Table 1, confirm that living standards fall most sharply for the retirement cohort and rise the most for the prime-age group, especially the men.[3]

Taken together, the two snapshots show that men close to or beyond retirement have living standards that usually average at least as high as those of children, while the economic well-being of older women is generally less than that of children. Indeed, other than the vast racial differences, what is striking about the figures in Table 1 is the increasing gap between the economic status of men and women as they age. During the prime earning years, when most men and women are married, the family well-being of men is five to nine percent higher than women: in the two older cohorts the difference is between 17 and 25 percent. The role of retirement, widowhood and pension coverage in producing these sex-related disparities is detailed in Section V.

These patterns of average family incomes across time and over the life cycle are usually taken to describe the likely path of individuals as they age. Indeed, it is tempting to infer that income fluctuations are relatively infrequent and occur at discrete points in the life cycle such as labor force entry and retirement. Between these points, the economic environment might be viewed as relatively stable, remaining at a level of fairly persistent affluence, poverty or middle-class income.

But a direct look at the diversity of economic experiences reveals that substantial change and volatility are the rule rather than the exception. The extent of rapid increases or decreases in family income-to-needs is shown in the first two columns of Table 2. Shown there are the fractions of individuals within each group who lived in families with either large positive growth (rising more than five percent per year) or decline (falling more than 5 percent per year) in income-to-needs over the same 1969–1979 period. Over an eleven-year period, an annual real growth rate of 5 percent will increase a family's living standard by over 70 percent; a negative five percent rate will nearly cut it in half.

A substantial minority within every age group experienced either very rapid rises or sharp falls in living standards over the period. About one child in five lived in families with rapidly rising living standards; for prime-age adults the corresponding fraction was one in three. Not surprisingly, much smaller fractions of the two older cohorts enjoyed such improvements.

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[3]The construction of this measure is detailed in an appendix.

Table 2

Fraction in Various Age Cohorts of Individuals Experiencing Rapid Income-to-Needs Growth or Decline and Experiencing Poverty in 1969 and 1979

Demographic Status in 1969	Percent with Income/Needs:				
	Growing Very Rapidly (Over 5% Per Year)	Declining Very Rapidly (Over Minus 5% Per Year)	Falling by More Than 50% At Least Once	Poor at Least Once	Poor 6 or More Years
Less than 5 years old					
White	24%	11%	26%	23%	3%
Black	17	16	35	73	31
All	23	11	27	29	7
25-45 years old					
Men	35	6	18	13	2
Women	32	10	24	20	5
56-65 years old					
Men	7	38	38	17	4
Women	6	35	39	27	9
66-75 years old					
Men	6	17	27	20	9
Women	11	16	27	35	11

Source: Panel Study of Income Dynamics.

Unfortunately, nearly every black child who experienced rapid growth was matched by a black child who went through rapidly declining living standards. Rapid decreases were most prevalent among the cohort undergoing retirement and least prevalent among prime-age men. Between one-tenth and one-fifth of all other groups experienced sharply falling living standards.

Another measure of income volatility, analyzed in greater detail below, consists of instances in which income-to-needs fell by more than 50 percent in consecutive years. This measure of economic volatility is similar to that employed by Elder and Liker in their important studies of the effects of economic losses experienced during the Great Depression.[4] The third column of Table 2 shows that the risk of this occurrence is substantial: more than one-quarter of all but the prime-age adults are estimated to have experienced such a drop at least once during the eleven-year period, with the incidence for black children and the retirement cohort exceeding one-third. Virtually all of these decreases left the individuals involved in them with, at best, modest incomes. Some 87 percent of the individuals experiencing the decreases saw their family incomes fall to less than $25,000 (data not shown in Table 2) and more than one-third fell into poverty. A closer look at these dramatic drops in living standards, taken in Duncan (forthcoming), shows that while the spells of ensuing adversity were somewhat longer for the elderly than for children, the elderly were much more likely to have predicted the economic decline in advance and to have savings available to cushion its impact than were the families of the children.

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[4]Elder and Liker and their colleagues used longitudinal data collected from a sample of Berkeley-area married couples with children over several decades as part of the Berkeley Guidance Study to perform a series of sophisticated studies of the long-term consequences of income loss. (Elder, 1974; Elder & Liker, 1982; Elder, Liker & Cross, 1984; Elder, Liker & Jaworski, 1984; Liker & Elder, 1984). Couples experiencing a drop of one-third or more in family income between 1929 and the early 1930s were compared on a range of subsequent outcomes — marital and parent-child relationships and mental and physical health — with couples whose Depression incomes did not fall as much, with some of the outcomes measured several decades later. They found that for men, the income losses produced uniformly harmful effects on marital and parenting behavior, apparently not so much from the loss of income per se as from the stress caused by the loss of status as breadwinner. For women coming from less advantaged families, there were also harmful effects on their marriages, parenting and subsequent health. For these working class women, the income loss itself appeared to be the culprit, leaving them with too few resources to properly perform their functions as homemakers. Interestingly, women coming from middle class backgrounds who experienced the income losses did better subsequently than otherwise similar women who escaped such adversity. Their resources for coping were apparently adequate and the economic hardship actually made them better able to handle subsequent problems. Longitudinal evidence linking income change to mental health is also presented in Perlin et al. (1981).

These fluctuating living standards place substantial fractions of the population at risk of poverty. Table 2 also shows what fractions of individuals in the various age-sex groups spent (1) at least one of the eleven years below the poverty line and (2) more than half of the time (at least six of the eleven years) in poverty.[5] It is clear that children and the aged share a higher incidence of poverty than the age cohorts they bracket. The incidence is especially high for two important subgroups of the young and the old. Nearly three out of four black children were poor at least once over the period and 30 percent of them were poor for 6 years or more. No other group comes close to these rates of poverty. The next most poverty-prone group is composed of older women. Over one in three older women is poor at least once over the period and about one in ten is poor 6 or more years.[6]

Taken as a whole, the figures in Table 2 reinforce those of Table 1 in showing the more precarious position of children and the elderly relative to the middle-aged and of adult women relative to men. Black children are clearly worse off by nearly all dimensions of economic status — income level, trend, instability and risk of long-term poverty. The cohort passing through retirement is the most likely to see their incomes decline during the period: for one-third of them the decreases come very suddenly. Women in their prime years are more likely to experience sharp income losses than comparably aged men, which results in an increasingly unfavorable economic position for them relative to men and a higher risk of poverty.

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[5]The poverty rates obtained with PSID data are substantially lower than those obtained from the Current Population Surveys because considerably more income is reported by PSID than CPS respondents. In 1975, for example, the CPS estimate of poverty was 12.3 percent and the comparable estimate from the PSID was 8.9 percent. These income differences cannot be attributed to demographic differences in the samples (Becketti, Gould, Lillard & Welch, 1983; Duncan, Hill & Ponza, 1984). A comparison with welfare program aggregates showed that the PSID accounted for more than 90 percent of total noncontributory cash transfers while comparable rates for CPS are in the 70 to 80 percent range (Duncan, Hill & Ponza, 1984).

[6]It is tempting to consider all individuals who were poor in only one or two of the eleven years as having short spells of poverty. But this would not be entirely accurate, since some who were poor only in 1979 may have been at the beginning of a long spell of poverty that extended beyond 1979, and some who were poor only in 1969 may have been at the end of a long spell that began prior to 1969. Indeed, it is possible to cast an analysis of short-and long-run poverty in terms of spells of poverty rather than the incidence of poverty over a specified length of time. Bane and Ellwood (1986) performed such an analysis with data from the Panel Study and found that 60 percent of all poverty spells lasted less than three years and only about one-eighth of all spells lasted more than eight years. These spell distributions are very similar to those of welfare use (Bane and Ellwood, 1983) and indicate the short-term nature of most periods of need.

Incidence of events and their link to income volatility. Table 2 demonstrates that a substantial drop in well-being is possible at any age. But certain life events hold more danger than others. PSID data provide information on the incidence of a wide variety of economic and demographic events. To keep our task manageable, we concentrate on four major demographic events — divorce/separation, widowhood, the birth of a child, and the transitions to becoming a household head or wife; two normally involuntary labor market events experienced by the household head — unemployment and major work loss due to illness; three often voluntary labor market events — major work reduction due to retirement,[7] and decreases in the work hours of wives and other family members; and substantial drops in asset income. The precise definition of each of these events is given in an appendix.

Table 3 shows the prevalence of each of these events among children, the aged and prime-aged adults. As expected, retirement is the dominant life event in the 55 to 65 age group. For women in this age cohort, the death of a spouse and decreases in asset income are next most frequent, with about one in five women experiencing each event. For children the pattern is much different, with unemployment, work loss due to illness of the household head and decreases in the work hours of other family members being the dominant labor market events and divorce or separation of parents and the birth of siblings being the dominant family composition changes.

To investigate further the link between the events and the incidence of major income losses, we switch our analysis to instances where income-to-needs fell by more than 50 percent in consecutive years during the eleven-year period. Each such fall was examined to see whether it was linked to any of the seven events. For example, if income-to-needs fell by more than 50 percent between 1976 and 1977, then those two years were examined to see whether a divorce or death had occurred or whether work hours had fallen substantially between the two years because of unemployment, illness, or retirement.[6]

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[7]Unfortunately, the data could not easily distinguish between work losses due to retirement and due to permanent disability in some of the years studied. We are forced to presume that retirement dominates among the older cohorts and permanent disability among the younger ones.

[6]For technical reasons relating to the difficulties in sorting out income flows during the years in which family composition changes occurred, all of the income changes and events were defined between the first and third year of a three-year interval. Exact definitions of events are given in the appendix. To avoid the inclusion of income/needs drops caused by measurement error, we further restricted our analysis to instances where income-to-needs in

Table 3

Fraction of Various Age Cohorts of Individuals Experiencing Various Life Events at Least Once Between 1969 and 1979

Demographic Status in 1969	Family Composition Events				Labor Market/Health Events						
	Divorce/ Separation of Spouse[a]	Death of Spouse[a]	Birth of Child to Head[a]	Individual Became Head or Wife	Major Reduction in Work Hours of Head Due to Retirement	Major Unemployment of Household Head	Major Work Loss Due to Illness of Head	Fall in Work Hours of Wife	Fall in Work Hours of Other Family Members	Large Decrease in Asset Income	Any of These Ten Events
Less than 5 years old											
White	13%	2%	36%	0%	2%	25%	22%	12%	24%	8%	82%
Black	20	10	36	0	8	41	33	11	33	0	90
All	14	3	36	0	3	27	24	12	25	7	83
25-45 years old											
Men	9	2	24	2	4	22	25	16	31	12	80
Women	9	4	16	2	5	21	25	14	37	11	80
56-65 years old											
Men	3	6	1	0	51	7	12	21	20	21	82
Women	2	19	1	3	31	8	10	10	16	20	76
66-75 years old											
Men	4	21	1	1	9	3	4	4	9	20	57
Women	1	28	0	4	5	3	7	3	12	20	62

SOURCE: Panel Study of Income Dynamics.

(a)For individuals less than five years old, these events refer to parent rather than spouse.

Table 4 shows that the life events we measured were often associated with an income-to-needs loss of more than 50 percent and that the links to life events varied across age groups. For children, divorce or separation is the most important family composition event associated with an income-to-needs drop, while a major spell of unemployment is the most important labor market change. For the 56 to 65 year olds, retirement is relatively most important. For both men and women in the oldest cohort, drops in asset income, death of a spouse and drops in the work hours of other family members are the events most frequently associated with a sharp income-to-needs loss. For women, the transitions other than widowhood to becoming head of a household (usually after living with children) is also important; for men, retirement is an important factor.[9]

The linkage between life events and changes in well-being found in Table 4 is an important first step in uncovering the full life course consequences of such events. But a longer time frame is clearly needed to understand fully how an event like divorce or retirement affects the individuals involved. For instance, the death of a spouse may have much more complex ramifications that can be observed in the simple one year transitions considered here. Heavy medical bills may eat into family resources prior to a husband's death, thus dramatically reducing the well-being of the widow over several years in a more devastating way than that measured here. Yet such a multi-period outcome is missed by Table 4.

Even those events captured in Table 4 can be more fully disaggregated by multi-year analysis. For instance, certain life events produce more permanent changes than others. Unemployment or divorce followed by remarriage may cause serious but short-lived drops in well-being, whereas those who retire into poverty may experience much more permanent drops in well-being. A multi-year analysis of the changes in well-being associated with major

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the first year of the three-year interval was not preceeded in the prior year by an income-to-needs amount that was 50 percent lower and where income-to-needs in the third year were not followed in the next year by income-to-needs that were more than twice as high.

[9]The linkage between these events and a drop into poverty is about the same for children and the middle-aged but much less pronounced for older men and women. Burkhauser, Holden and Feister (1986) use data from the RHS to trace the well-being of married men aged 58-63 and their spouses who retired during the 1970s. These couples were not poor in the year prior to retirement. This study also attempt to link poverty to related events. While the methodology is not comparable with Table 4, one event is the same — widowhood. They find that 31 percent of their sample of poor widows fell into poverty in the first income period following the death of their husband. Hence, while widowhood is a relatively low likelihood event for the women in Table 4, the likelihood of a drop into poverty is quite high for those who do become widows.

life events is needed to understand their impact more fully. It is to this task that we now turn, focusing on the effects of unemployment and divorce on children and the effects of retirement and widowhood on the aged.

IV. Children, Unemployment and Divorce

Parental unemployment and divorce are the two most prominent events that threaten children with substantial decreases in living standards and even poverty. Taken together, they account for more than one-quarter of the sharp decreases in the living standards of children observed during the 1970s and a comparable fraction of the transitions into poverty observed during that same period. From the figures reported in Table 4, unemployment appears to figure more prominently in these transitions than divorce, but what little comparable analysis has been done on the economic importance of these two events suggests that the longer-run economic consequences of divorce on children are more severe than those of unemployment. Duncan and Rodgers (1985) found that while a divorce or separation was associated with less than half as many transitions into temporary poverty as unemployment, the marital changes were more than twice as likely as unemployment to be associated with spells of poverty that lasted five years or more. The reason for these differences is that spells of unemployment tend to be much shorter than spells of divorce prior to remarriage.

Unemployment. The publicity accorded monthly unemployment statistics make them one of the most visible indicators of the state of the economy and yet it is far from obvious who bears the burden of higher unemployment. Some unemployed workers find other jobs quickly, some receive generous unemployment benefits while out of work, and some families of unemployed workers are able to cushion the losses with increases in the work of other family members. Most spells of unemployment are surprisingly short. Sider (1985) estimates that the length of a typical unemployment spell ranges from about two to three months, depending on whether it was begun during a period of macroeconomic growth or recession. Of course, this average conceals a distribution of experiences that includes a small fraction of very long spells.

There have been few analyses of the effects of unemployment spells on family incomes. Gramlich and Laren (1984) estimate that each percentage point increase in the aggregate unemployment rate reduces the incomes of households headed by white and black men by between 1 and 2 percent, with only about one-third of this decrease offset by unemployment compensation, other transfers or increases in other household income. This relatively small

Table 4

Fraction of Decreases in Income/Needs of more than 50% Associated with Various Life Events

Demographic Status in 1969	Family Composition Events				Labor Market/Health Events					Large Decrease in Asset Income	Any of These Ten Events
	Divorce/ Separation of Spouse[a]	Death of Spouse[a]	Birth of Child to Head	Individual Became Head or Wife	Major Reduction in Work Hours of Head Due to Retire-ment	Major Unemploy-ment of Household Head	Major Work Loss Due to Illness of Head	Fall in Work Hours of Wife	Fall in Work Hours of other Family Members		
Less than 5 years old											
White	12%	1%	9%	0%	0%	20%	6%	3%	6%	2%	50%
Black	11	1	6	0	7	8	7	0	13	0	37
All	12	1	8	0	2	17	7	3	7	2	48
25-45 years old											
Men	5	0	9	2	3	24	7	3	11	8	58
Women	10	3	3	1	5	10	5	3	17	5	52
56-65 years old											
Men	1	0	2	0	29	1	3	17	14	9	58
Women	1	5	0	6	25	2	1	9	12	11	60
66-75 years old											
Men	0	5	0	0	10	0	0	0	12	23	49
Women	0	10	0	14	0	0	0	0	9	22	48

SOURCE: Panel Study of Income Dynamics.

[a]For individuals less than five years old, these events refer to parent rather than spouse.

average is very unevenly distributed across and within income classes. Families with income below or near the poverty line have a much higher chance of substantial income loss from recession-induced increases in unemployment than do families in other income strata.

The temporal distribution of unemployment burdens was investigated by Corcoran and Hill (1979), who examine the incidence of unemployment among male heads of households and its effect on family economic status using data over the period from 1967 to 1976 from the PSID. Consistent with the spell-based information, they find that while many of the men experienced at least some unemployment, a very small fraction bore the brunt of the total unemployment costs. Among the men who experienced at least some unemployment during the decade, the fraction of potential disposable earnings lost to unemployment, adjusted for the receipt of unemployment compensation and taxes, averaged only about four percent. However, some five percent of the unemployed men accounted for half of the total amount of unemployment and lost more than $50,000 to unemployment (in 1985 dollars) during the decade. The family characteristics of these men were not explored, so we cannot tell to what extent the subgroup of heavily burdened families included children, but it is likely that this extreme concentration of unemployment among a very small group accounts for its predominance among transitions by children into frequent but often short-term poverty spells.

Divorce. Longitudinal data provide a unique look at the impact of divorce and separation on the economic status of children, by making possible comparisons of the economic status of individuals in the years before and after a change in marital status.[10] This provides direct information on the relative impact of divorce or separation on the income of children, ex-wives and ex-husbands, and for ex-wives, on the relative importance of alimony and child support, welfare, labor market activity and remarriage as routes to possible improvement in economic status.

Table 5 presents calculations of the economic impact of divorce by showing average amounts of income, income-to-needs ratios and fractions poor in the year before, year after and five years after divorce or separation for the children, women and men undergoing those

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[10]The analysis presented here draws heavily from Duncan and Hoffman (1985), and is based on divorces or separations that occurred in the PSID between 1969 and 1975. The calendar year of divorce is treated as "t", and information on income and employment is compiled in years t − 1 through t − 5 for the children, women and men involved in a divorce. For both men and women, the sample was restricted to persons who were between the ages of 25 and 54 in the year prior to the divorce. Since their interest was in economic consequences, Duncan and Hoffman use a functional rather than a legal definition of marriage and do not distinguish between divorces and separations. A divorce or separation is defined as the transition from living with a spouse or long-term partner to living without that person for reasons other than death. Remarriages are defined analogously.

events. Family incomes of the children and women include whatever alimony, child support and welfare income was received by their families, while the family incomes of the men have had alimony and child support subtracted from them.

Income levels drop precipitously (by about 40 percent) between the years just before and just after divorce for children and women, and more modestly (by 15 percent) for men. Since divorce or separation initially reduces the family size of both of the resulting households, it is not surprising that the income-to-needs measure shows less severe decreases. Living standards fall to about two-thirds of their former levels for children and women, while the average divorced man is actually slightly better off in the year following divorce than he was in the year before.[11] For women and children not involved in remarriage, average living standards change little over the five years following the divorce.

The inclusion of women and children involved in remarriage in the calculation of the economic consequences of divorce improves substantially the average income-to-needs ratios. About half of the women will have remarried by the fifth year following the divorce or separation and their economic status usually exceeds their pre-divorce status. Combining the remarried and still-divorced into a single group leads to the result that the "average" divorcing woman and her children are about as well off after five years as in the year before divorce. But the average is formed by two very disparate groups — those who did remarry (the majority of whom are better off) and those who did not remarry (the majority of whom are in a worse position). Thus divorce generates a great deal of inequality in the post-divorce distribution of income among women and children.

When the income-to-needs figures used in Table 5 are used to compute poverty rates the dramatic impact of divorce is clear. In the year prior to divorce or separation, about 12 percent of the children and 7 percent of the women lived in families classified as poor. In the year following a divorce or separation, these figures double to about 27 percent for children and 13 percent for women. After five years, poverty rates decline only slightly for women who are still unmarried. Poverty rates for men actually fall from six to four percent in the year after divorce and remain at very low levels.

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[11]These changes differ substantially from the well-publicized results of Weitzman (1985), who finds with California data that income-to-needs ratios of divorced women fell by 73 percent and rose by 42 percent for divorced men. Her figures, based on a needs standard similar to that used in this paper, are grossly inconsistent with other figures she presents, based on the same data, in which needs are calculated on a per capita basis; they appear to be in error.

Table 5

Family Income, Income-to-Needs Ratios and Poverty Rates Before and After Divorce for Children, Women and Men

	Children			Women			Men		
	Family Income	Family Income/ Needs	Percent Poor	Family Income	Income/ Needs	Percent Poor	Family Income	Income/ Needs	Percent Poor
(1) One year before divorce	$23,213	2.7	12%	$26,168	3.6	7%	$25,403	3.6	6%
(2) One year after divorce	$13,822	1.8	27	$14,781	2.6	13	$21,488	3.7	4
(3) Five years after divorce--no remarriage	$14,511	1.9	20	$15,178	2.8	11	-	-	-
(4) Five years after divorce--all	$22,380	2.6	17	$22,781	3.4	10	$25,874	4.2	3
(2)/(1): One year after/one year before	.60	.67		.56	.72		.85	1.03	
(3)/(1): Five years after for women not remarried/one year before	.63	.70		.58	.78		-	-	
(4)/(1): Five years after--all/one year before	.96	.96		.87	.94		1.02	1.17	

SOURCE: Calculated from Duncan and Hoffman (1985), based on data from the Panel Study of Income Dynamics.

The relative stability of the family incomes of women who remain unmarried masks various changes in the composition of their postdivorce income packages. The women's own labor force income was clearly the dominant component of postdivorce family income. Labor force participation rates jumped from predivorce levels by 15 percent points — from 67 to 82 percent. (Interestingly, upon remarriage, labor force participation rates fall to a point that is below the pre-divorce rate.) The women's labor income accounted for only 22 percent of family income before the divorce, 60 percent of total family income in the year just after the divorce and for nearly 70 percent in the fifth year after the divorce if there was no remarriage by that time.

Noncoverage and noncompliance with court awards of child support and alimony is widespread. The U.S. Census Bureau (1986) estimates that only about half of mother-only households containing minor children had child support awards or agreements in 1984 and only half of those due payments received the full amount; one-quarter received no payments at all. The majority of PSID women reported receiving no alimony or child support, and both the incidence and amount of such transfers decline as time passes following the divorce. Even in the year just after the divorce, when alimony and child support payments are highest, they account for only about one-tenth of the total average family income and their average amount falls by nearly two-thirds by the fifth year following the divorce. The decline in support from the ex-husbands with time is much steeper for women coming from previously high income marriages. Detailed in Duncan and Hoffman (1985) are patterns showing amounts of annual support from high income ex-husbands that are nearly twice as large as from low-income husbands in the year following divorce ($2,425 versus $940) but fell below the amounts paid by low-income husbands ($746 versus $764) by the fifth year.

Welfare is less important than alimony or child support as a source of postdivorce income shortly after divorce and maintains its five-percent average share in the fifth year following divorce. There are substantial racial differences in these income packages, but even while between one-half and four-fifths of black women report receiving welfare in the five years following a divorce or separation, in no year is the average amount received from welfare even half as large as the average amount received from black women's labor earnings (Duncan and Hoffman, 1985).

V. The Aged, Retirement and Widowhood

A major accomplishment of federal policy over the last two decades has been the increased well-being of the aged. Today the incidence of poverty is no greater among the aged that it is among the population as a whole (Danziger, et al., 1984; Hurd and Shoven, 1985). Despite the general increase in well-being, however, some subgroups of the aged continue to run high risks of poverty (Quinn, 1985; Smeeding, 1986).

The two life events most closely associated with losses of well-being at older ages are retirement and the death of a spouse. In most cases neither event comes completely unexpectedly and, especially in the case of retirement, substantial planning may have preceded it.[12] Hence the great majority of older workers who leave their job and retire do not immediately fall into poverty. But some do, and more do so over time. In addition, as time passes after retirement, most women face the transition from wife to widow. The loss of a spouse poses a new threat to their well-being and increases the risk of poverty.[13]

In this section, data from the Retirement History Survey are used to measure the economic well-being of a cohort of workers who were on the verge of retirement at the end of the 1960s. Their well-being and the well-being of their survivors are traced over the following decade. As with the divorce analysis, the emphasis is on changes in well-being just before and in the years following retirement rather than simply on following this cohort through calendar time. The measure of time used here will therefore be anchored at the point of retirement rather than at some calendar date.

Because one of our interests is in the onset of poverty after retirement, none of the married couples followed here were poor during the last year of the husband's employment. The resources at the disposal of the couples during retirement varied considerably. While social security benefits were almost universally available for those who retired during the 1970s, only about 60 percent of workers in our sample received pension income. When pensions were received, some plans - single life pensions — stopped payments with the death

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[12]Burkhauser and Wilkinson (1984) and Burkhauser, Butler and Wilkinson (1985) look at the importance of initial wealth and other characteristics at retirement and the likelihood of falling into poverty thereafter. They find that for couples who remained married over the period of their analysis few fell into poverty because of unexpected events.

[13]In 1984 over one-quarter of widows aged 65 and over had incomes below the official poverty line. Such women make up one-half of the aged poor (U.S. Bureau of the Census 1985). Holden, Burkhauser and Myers (1986) find that a large percentage of poor older widows were not poor while married. Hurd and Boskin find the onset of widowhood to be the most important single event associated with a drop in well-being at older ages.

of the worker, while others — joint and survivor pensions — continued to pay benefits to the survivor. Our data allow us to disaggregate retirees according to pension eligibility and the type of survivor option the husband chooses.[14]

Well-being after retirement. Despite the fact that some workers in our sample who declare themselves retired eventually return to work full-time, for the vast majority retirement is a time of substantially reduced work. Hence it is not surprising that the transition into retirement is associated with a reduction in income. Table 6 shows average income-to-needs ratios over two key transitions —retirement and the death of a husband. Intact couples, that is those couples who remain married throughout the entire survey period, are distinguished from households in which the husband died. The table reports income-to-needs ratios in the last year of work and for two subsequent periods of retirement — one to two years after retirement and seven to eight years after retirement.

In their last year of work, the average income-to-needs ratios of this sample of nonpoor intact couples — 4.7 — is well above the poverty line. Those not eligible to receive an employer pension are not, on average, as well off as those who will receive a pension, but they still have income amounting to nearly four times the poverty line. The pattern is similar for the sample of eventual widows. It is important to note, however, that even before the death of the husbands the family income of soon-to-be widows was lower than that of intact couples.

The next two rows report average income-to-needs ratios one to two years and seven to eight years after retirement. There is a decline in income-to-needs in both periods with the greatest drop, not surprisingly, occurring in the first year of retirement.[15] By showing the ratio of income-to-needs just after relative to just before retirement, the fourth row measures the initial impact of the transition from work to retirement. It is similar to a replacement rate often used to measure the adequacy of retirement income. This replacement rate was relatively high and uniform across all groups: income-to-needs fell by between 15 and 25 percent, on average, upon retirement.

The last row of Table 6 provides a measure of retirement income deterioration — the ratio of income-to-needs in years seven to eight after retirement relative to the year before. Intact couples and widows whose husbands chose a joint and survivor pension plan have

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[14]Information on the type of pension option chosen is not directly available from the RHS. This information is approximated by tracing the pension income received by women before and after widowhood. For a more complete discussion of this approximation, see Myers, Burkhauser and Holden (forthcoming).

[15]For a more detailed discussion of the pattern of income-needs at older ages see Burkhauser, Holden and Feister (1986).

Table 6

Income-to-Needs Ratios of Initially Nonpoor Couples by Marital Status and by Pension Characteristics

	Intact Couples			Eventually Widowed Couples			
	Total	No Pension	Pension	Total	No Pension	Single-Life Pension	Joint & Survivor Pension
(1) One year before retirement	4.7	3.9	5.2	4.3	3.6	4.4	5.6
(2) One to two years after retirement	3.6	2.9	4.1	3.5	2.9	3.6	4.8
(3) Seven to eight years after retirement	2.3	1.9	2.6	1.9	1.5	1.8	3.1
(2)/(1): One to two years after/ one year before	.77	.74	.79	.81	.79	.81	.85
(3)/(2): Seven to eight years after/one year before	.50	.48	.50	.45	.42	.40	.55

SOURCE: Calculated from Burkhauser, Holden and Feister (1986), Table 2, based on data from the Retirement History Survey.

income-to-needs ratios that are, on average, half of what they were before retirement and two-thirds of their initial retirement levels. However, for widows whose husbands were never eligible for a pension or who were enrolled in a plan in which benefits ended with his death, there is a drop to around 40 percent of pre-retirement income levels.

Table 6 paints a dynamic picture of well-being. Average income-to-needs ratios are high to begin with, but fall substantially for all subgroups analyzed. Not surprisingly, the steepest fall occurs in the first year of retirement, since increases in retirement-related income do not fully replace the husband's wage income. What follows is a much more gradual decline in average economic well-being. Those who will eventually draw pensions are considerably better off while working than are those without pension plans. This initially higher income position appears to be the reason they are better off in retirement. While they have slightly higher replacement rates, depreciation thereafter appears to occur at the same pace for both groups of intact couples. For widows the drop in status is faster, except for those whose husbands chose a joint-and-survivor pension option.

Poverty risks. Table 7 takes advantage of the longitudinal nature of the RHS to create another dynamic measure of well-being. Here the same time periods and subgroups are used, but the measure of interest is the risk of falling into poverty at a given point after retirement. It measures the probability of falling into poverty during the next two-year period, given that one is not in poverty at that point.[16]

For intact couples, the risk of falling into poverty is greatest in the first period of retirement and declines thereafter. Those with a pension face a much smaller risk than do those without a pension — the fractions falling into poverty are 2 and 11 percent, respectively. But for both groups the risk of poverty falls over time. This is not the case for widows. The risk of poverty for eventual widows is approximately the same as that for married couples in the first period, but it increases over time. This pattern of a rising risk of poverty is found across all subsets of widows. Somewhat surprisingly, given the average income-to-needs results reported in Table 6, there is little difference between the risk of falling into poverty faced by those couples with single-life pensions and those with a survivor pension.

The final row of Table 7 shows the cumulative effect of the yearly risks of poverty reported above. Widows are more than twice as likely to experience poverty at least once over the first eight years of retirement as are intact couples. Pensions offer considerable

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[16]This table is based on the life-table procedures often used to analyze the risk of death as cohorts age (Allison, 1984). Note that neither measured characteristics nor heterogeneity within subcategories are controlled.

Table 7

Risk of Falling into Poverty during Retirement by Marital Status and by Pension Category
(Percentage)

Period of Retirement	Intact Couples			Eventually Widowed Couples			
	Total	No Pension	Pension	Total	No Pension	Single-Life Pension	Joint and Survivor Pension
One to two years after retirement	6%	11%	2%	5%	9%	2%	3%
Seven to eight years after retirement	1	2	1	8	10	7	7
Ever poor over eight years	9%	16%	5%	21%	28%	16%	15%

SOURCE: Calculated from Burkhauser, Holden and Feister (1986), Table 3, based on data from the Retirement History Survey.

Table 8

Income-to-Needs Ratios of Those Who Fell Into Poverty in the Sample Period Before, Period of, and Year After Poverty

Year Fell Into Poverty	Income-To-Needs Ratio		
	Two years Before Poverty	Year of Poverty	Two Years Following Poverty
1970	2.67	.66	1.33
1972	2.39	.64	1.30
1974	2.15	.64	1.22
1976	2.12	.66	1.29

SOURCE: Retirement History Survey

protection from poverty in retirement. But the type of pension does not seem to affect cumulative poverty rates of widows. The vast majority of those on the verge of retirement are not poor and are not likely to become poor, at least in their first decade of retirement. But even for the subjects of our analysis, those with little or no personal history of poverty while working, the transition into retirement is not without risk and is influenced crucially by pension coverage and the death of a spouse.

Exits from poverty. As was the case for younger cohorts, it is important to recognize that once entered, poverty may not be a permanent condition for the aged. Table 8 shows the income-to-needs ratio of the RHS households that fell into poverty over the sample years of the 1970s. Each row shows the income-to-needs ratios for all households in the survey that first fell into poverty in that survey year. By definition the income-to-need ratio for every household was below 1.0 in the survey year in which it was poor.

Note the striking resemblance across all rows. The income-to-needs ratio in the survey year preceding events is at least twice the poverty level. In the year of poverty, income-to-needs is about two-thirds the poverty line. In the survey year following the initial period of poverty, income-to-needs rises to about 130 percent of the poverty line. This volatility in the average income-to-needs ratios of those falling into poverty over the period is observed in Table 6 which shows a relatively gradual decline in income-to-needs in the overall sample. Additional evidence of fluctuations in poverty status is found among older widows. Burkhauser, Holden and Myers (1986) find that over one-third of widows who fall into poverty in the first survey year after their husband's death are out of poverty two years later.[17]

Taken as a whole, the RHS data show that the incidence and timing of poverty vary greatly across our aged cohorts. Retirement is the key life event for this age group. Our results suggest that for the average couple with pension income the 1970s were indeed a good decade in which to retire. The social insurance system, together with an employer pension, appear to have insured that non-poor workers rarely slipped into poverty after retirement.

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[17]All income reports in a survey must be retrospective to some degree. Most survey designs include only the retrospective income of current family members in the measure of total current family members. This causes problems when household composition changes during or after the retrospective incidence period. Hence RHS and most data sets other than the PSID do not count as part of total family income the prior calendar year income of individuals not in the household at the time of the interview. The values reported here are from widows who were in fact widowed over the entire survey year and thus do not artificially assign new widows to poverty. After adjustments are made correcting for this problem similar results are found for all widows in the RHS sample. See Burkhauser, Holden and Myers (1986).

However, the holes in the retirement safety net were considerably larger for those without pensions. Furthermore, the combination of retirement and the subsequent death of the husband resulted in additional risks to well-being. For those women who became widowed during the decade, the gaps in the safety net were even larger, especially if their husbands had no pension.[18] However, the length of stay in poverty varied widely. Just as is the case for younger cohorts, poverty is not likely to be a persistent state even for older widows. At least among the "young-old" of the 1970s, movement out of poverty was possible.

VI. Conclusion

Throughout this chapter we have attempted to use longitudinal data to provide a dynamic picture of the family income experiences of children and the elderly. We find substantial income volatility at all points in the life span, placing substantial numbers of the population at risk of suffering significant losses and, in the extreme, of falling into poverty. These risks were exceedingly high for black children, quite high for elderly women and lowest for men in their prime earnings years.

An examination of the events associated with this income volatility showed that divorce and unemployment were most significant for children, while retirement and widowhood were most important for the elderly. In contrast to the effects of divorce and widowhood, the adverse economic consequences of unemployment appeared to be short-lived in most cases.

The failure of absent fathers to support their children left the mothers and their children much worse off and the fathers better off following divorce. Remarriage ended the spell of hardship for some of the women and children: without remarriage, the rising labor income of the mothers was completely offset, on average, by falling alimony and child support payments, producing no net improvement over time in the economic status of women who remained unmarried.

In a parallel fashion, the failure of men nearing retirement to choose a pension that provided benefits to their spouses after their deaths produced much greater economic hardship for those elderly women than they had experienced when their husbands were alive. In contrast, elderly widows with survivor benefits from a private pension fared reasonably well after retirement, although their risk of falling into poverty was still higher than it had been when their husbands were alive.

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[18]It must be kept in mind that the sample of widows followed here is a highly selected one. It includes only the widows of men who retired between 1969–1977 who were not poor before they died. It is clearly not representative of all widows.

What emerges from our analysis is a picture of the economically vulnerable population distinguished not so much by age as by sex. The average living standard of an adult woman is lower than that of a comparably aged man, and the sex-based gap grows over the life span. The fact that the vast majority of children live with their mothers rather than their fathers after divorce produces patterns of well-being for them that mirror those of their mothers.

Policy implications. Our examination of the dynamics of family well-being at very young and older ages sheds new light on policy issues that have been raised in the past. Some of the economic fluctuations we examined began or perpetuated spells of poverty, producing situations with clear policy implications. Poverty thresholds have been formulated to reflect a minimum income level below which basic needs cannot be met. Income maintenance programs now existing in the United States (e.g. AFDC for families with children. Supplemental Security Income for the aged and disabled) are usually designed and defended as a means of preventing recipients from enduring the hardship of unacceptably low living standards. These programs have clearly provided needed benefits to recipients, but the incidence of poverty among all groups, especially black children and older women, suggests that the coverage and benefits of these programs still leave much to be desired.

These income maintenance program have come under attack because of the possibility that they induce dependence in recipients by reducing work incentives and promoting female-headed households (e.g., Murray, 1984). A full discussion of the debate over these issues would lead us far afield; however, it is useful to mention some of the dynamic aspects of income that bear on the debate.

Although the panel data indicate that sharp declines in income are widespread, they also show that periods of need are often relatively short and that spells of actual receipt of welfare program transfers are equally short. Only about one-sixth of all AFDC spells last more than eight years and fewer then one-third of first-time recipients will have total welfare "careers" lasting that long (Ellwood, 1986). Current programs appear to function as benign income-loss insurance programs for the majority of recipients. Whether or not they induce dependence in the minority of long-term recipients and their children is an unresolved but crucial question in designing policies to lessen the adverse effects of income variability.

Novel to our inquiry is an examination of large income losses that occur at other points of the income distribution. The vast majority of such losses left the families involved with modest incomes, although two-thirds of the affected families had incomes still above poverty and thus were generally ineligible for means-tested programs. Whether it is the losses themselves or the new, lower living standards produced by the losses that result in adverse

effects is an important question in need of further research. Evidence gathered to date would appear to implicate income losses in producing a variety of mental and physical health problems.

A different set of policy issues arise if the goal is to minimize the incidence or effect of preventable losses that reduce income to points above the poverty line. Here the focus is on policies tied to the events producing the losses. With divorce, the failure of fathers to support dependent children is crucial. We are not, of course, the first to reach such a conclusion. What our data have done, however, is to show how the problem worsens with the passage of time after divorce, especially for women and children with above-average family incomes prior to divorce. The low earnings most divorced women can command in the labor market make remarriage and not career advancement the more reliable route to restored economic status: this raises questions about the tolerability of a situation in which the economic status of women is so highly dependent upon men.

The problem of women's dependence is also apparent at older ages. A major predictor of a poverty-free life for a couple after the husband's retirement is whether or not he receives a pension in retirement. For women married to men with pensions a substantial drop in income or a fall into poverty while their husbands are alive is unlikely. After a husband's death, however, the type of pension he held is related to the relative drop in their subsequent well-being. It is hoped that the Retirement Equity Act of 1984, which, beginning in 1986, requires workers to obtain their spouse's signature to allow the choice of a single-life pension, will encourage the choice of plans with survivor benefits and lead to a more equal sharing of household income across the total lifetimes of both spouses.[19] The likelihood that it will reduce poverty among widows, especially among the current generation of aged women, is not as great. Our results show that on average women had higher risk of poverty as widows than than when they were married regardless of pension eligibility and the pension options chosen by the husbands.

This is not to say that a more equal sharing of income across the lifetimes of both spouses is not possible and that pension policy can not play a role in achieving it. Several changes in the traditional roles of women and men suggest that future widows may indeed control a greater share of family income. First, the labor force participation rates of married women have been steadily rising and the share of their married life spent in the labor force is increasing. Ippolito (1986) reports that 87 percent of private employers have pension plans

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[19]See Myers, Burkhauser and Holden (forthcoming) which argues that this act is likely to have only a small effect on the poverty rates of older women.

and that their plans will ultimately support pension income for two-thirds of the current full-time work force. Hence women are more likely to be eligible for a private pension in their own name. The same is true with regard to social security benefits. Because women tend to have shorter job tenure than men, the 1986 tax reform legislation which cuts the maximum 10 year vesting period in half will also increase the pension eligibility of women.

As women and men become more similar in their working careers, women will gain greater protection from dramatic income loss occurring as they move from being wives to widowhood. But for those women who — either through choice or lack of opportunity — remain outside of the work force at younger ages, dependence on their husband to ensure a poverty-free widowhood may still be a risky gamble.

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APPENDIX

Definition of Events

DIVORCE OR SEPARATION OF SPOUSE OR PARENT — A change from living with a spouse or permanent partner (or, for children, having a married couple or permanent partners heading the household) to not living with that same spouse or partner for reasons of divorce or separation. This transition is defined as occurring only for individuals who are heads of households or spouses, children, step-children, or grandchildren of heads.

DEATH OF SPOUSE OR PARENT — A change from living with a spouse or permanent partner (or, for children, having a married couple or permanent partners heading the household) to not living with that same spouse or person because he or she has died. This transition is defined as occurring only for individuals who are heads of households or spouses, children, step-children, or grandchildren of heads.

BIRTH OF CHILD TO HEAD — A child is born to, or an infant is adopted by, the female head or the male head and wife between the year in which t family income is reported and the year in which t−2 family income is reported. This event is defined as occurring only if the household head and wife remained the same between t+1 and t−3.

INDIVIDUAL BECAME HEAD OR WIFE — A change from being classified as any relation to the household head other than head, wife, or permanent partner of head in the year in which year t family income is reported to being classified as head, wife, or permanent partner or head in the year in which t−2 family income is reported.

MAJOR REDUCTION IN WORK HOURS DUE TO RETIREMENT OR DISABILITY — The transition, defined from a comparison of the head's work hours in years t and t−2, of work hours exceeding 1500 during calendar year t and falling below 500 in year t−2, and the head reported himself or herself as not "retired" or "permanently disabled" in the year t−1 interview and as "retired" or "permanently disabled" in the year t−2 or t−3 interview. This event is defined as occurring only if the household head remained the same between t−1 and t−3.

MAJOR UNEMPLOYMENT — The transition, defined from a comparison of the head's unemployment house in calendar years t and t−2, of less than two months of the head's workdays lost because of unemployment or, for 1969–1975, strikes in year t to more than two months lost for those reasons in t−2. This event is defined as occurring only if the household head remained the same between t−1 and t−3.

MAJOR WORK LOSS DUE TO ILLNESS OF HEAD — The transition, defined from a comparison of the head's work hours lost to illness in years t and t−2, or less than two months lost due to illness in year t to more than two months lost due to illness in year t−2. This event is defined as occurring only if the household head remained the same between t−1 and t−3.

FALL IN WORK HOURS OF WIFE — The transition defined from a comparison of the work hours of the wife or permanent partner in years t and t+2, of work hours exceeding 1500 during calendar year t and falling below 500 in year t−2. This event is defined as occurring if the household head and wife (or permanent partner) remained the same between t−1 and t+3.

FALL IN THE WORK HOURS OF OTHER FAMILY MEMBERS — The transition, defined by a comparison of the total work hours of family members other than head, wife, or permanent partner of head, of work hours falling by 1000 hours or more between years t and t−2. This event is defined as occurring only if the household head remained the same between t−1 and t−3, but no other family composition constraints are imposed on this definition, so that the change could come about from decreases in work hours of other family members who remain in the household or from decreases due to the departure of other family members from the household.

LARGE DECREASE IN ASSET INCOME — A decrease of $5,000 or more (in 1985 dollars) in head's income from rent, dividends, and interest in calendar year t to calendar year t−2. This event is defined as occurring only if the household head remained the same between t−1 and t−3.

INCOME/NEEDS GROWTH RATES — Annual growth rates in household income/needs are calculated by fitting a trend line to the natural logarithm of each individual's inflation-adjusted income/needs ratios over the 1969 to 1979 period. The slope of this trend line can be interpreted as a compound annual growth rate in real income/needs. Positive slopes indicate that the individual more than kept up with inflation; slopes indicating real growth in income/needs of larger than 5 percent per year or less than −5 percent per year delineate "rapidly growing" or "rapidly falling" income/needs. A 5 percent real annual growth rate doubles an income/needs level in about 12 years.